

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4356

OCTOBER 24, 2002

R E S O L U T I O N

**(RES. W-4356), POINT ARENA WATER WORKS, INC. (PAWW).
ORDER AUTHORIZING AN INTERIM INCREASE IN RATES
SUBJECT TO REFUND, PRODUCING ADDITIONAL ANNUAL
REVENUES OF \$70,137 OR 56.9% FOR TEST YEAR 2002 AND TO
CONVERTING THIS DRAFT ADVICE FILING INTO A FORMAL
PROCEEDING.**

SUMMARY

By Draft Advice Letter filed on January 14, 2002, PAWW seeks an increase in rates for water service producing additional revenue of \$170,644 or 213% to recover increased operating costs and to earn a reasonable return on investment. Thus far the Commission has granted an interim rate increase producing additional revenue of \$47,677 or 62.3% pursuant to Resolution (Res.) W-4308, dated October 25, 2001, based upon the need to provide a positive cash flow to the utility. This resolution grants an additional increase in gross annual revenues subject to refund, of \$70,137 or 56.9% for Test Year 2002. This increase includes a 13.00% rate of return on rate base in the test year. Pursuant to Decision (D.) 02-03-060, this general rate case (GRC) draft advice letter is hereby converted to a formal proceeding and the rate increases granted here and in Res. W-4308 are subject to refund and shall conform with the Commission's final decision in the formal GRC proceeding.

BACKGROUND

PAWW is a Class D water utility that serves 179 connections in the City of Point Arena (and vicinity) and Whiskey Shoals Subdivisions 1, 2 and 3 in Mendocino County. It was certificated by D.23906, July 24, 1931 which authorized the transfer of the system and the charging of rates. Transfer of ownership to the present owners, William and Karen Hay, was authorized by D.97-09-097, September 24, 1997. The Hays are also owners of Bed Rock, Inc. (Bed Rock), a sand and gravel firm. PAWW shares office and shop space with Bed Rock and uses Bed Rock employees to perform fieldwork for PAWW.

PAWW's last general rate increase was approved by Res. No. 3594, effective July 29, 1991. It authorized an increase of \$18,700 (39.6%) with a rate of return of 10.5%. On June 26, 2000, PAWW submitted draft advice letter workpapers with the Commission's Water Division (Division or staff) requesting an increase in rates producing additional revenue of \$147,716 or 146.25%. Based on the utility's calculation, this increase would have resulted in net income of \$40,988 and a rate of return of 13%. The utility completely revised its request on January 11, 2001, decreasing the request to \$70,000 or 90%, with a resulting net income of minus \$96,300. PAWW revised its request again on January 14, 2002, with its final draft advice letter requesting authority under Section VI of General Order 96-A and Section 454 of the Public Utilities (PU) Code to increase rates for water service to produce additional revenues of \$170,644 or 213% in 2002 (based on rates in effect prior to the interim increase authorized in Res. W-4308 as described below). PAWW's request shows 2002 gross revenue of \$80,095 at present rates increasing to \$250,259 at proposed rates to produce a rate of return on rate base of 15.00%. That request is the subject of this resolution.

Staff and PAWW held its first public meeting in Point Arena on December 19, 2000. Sixteen customers attended. The utility explained the need for the increase and the utility and staff answered questions.

The City of Point Arena (City), as a customer of PAWW, protested the first revised draft advice letter dated January 11, 2001 alleging issues of fact in the workpapers and requesting justification for the amounts estimated. It complained that PAWW had a history of "discouraging new customers from hooking up" and questioned the imposition of Facilities Fees. The letter requested a full investigation and a formal public hearing. Staff could see no advantage in converting a GRC for 179 customers to a formal proceeding. Staff contacted the Mayor and explained to her that the issues she raised were exactly the ones staff would be investigating in the course of this general rate proceeding. Staff offered to work with her on addressing her issues and to provide her with a copy of the staff report. Staff noted that a formal rate proceeding would likely cause the utility to incur legal fees that normally would be passed on to ratepayers. Initially, the Mayor wanted the City Council to do its own investigation. When she was informed that the first step of the staff investigation would be to have the Division's Audit and Compliance Branch (ACB) conduct an audit of the utility's books, she agreed instead to await the staff's investigation.

Division Standard Practice U-9-SM, "Standard Practice for Processing Informal General Rate Cases of Class B, C, and D Water Utilities and Service Guarantee Plan" requires that within 7 days of receipt of a rate increase request, the ACB will prepare a cash flow analysis on the requesting utility. If the analysis indicates that the utility is operating in the red on a cash flow basis, ACB will prepare a resolution to authorize an immediate rate increase, subject to refund, adequate to meet the cash flow needs. It wasn't until

PAWW filed its 2000 Annual Report to the Commission in August 2001, that ACB was able to conduct such a cash flow analysis. The analysis indicated that PAWW was operating at a loss and that interim rate relief was justified. ACB staff prepared a resolution, approved by the Commission as Res. W-4308 on October 25, 2001. The increase was intended to provide PAWW with sufficient monies to pay its current cash operating expenses with no depreciation or rate of return on its rate base.

By letter dated November 19, 2001, the City protested the advice letter to implement the cash-flow increase on the grounds that it was not critical to continued service, was an unjustified economic impact on ratepayers, that the 2000 Annual Report included "many uncritical, unnecessary and unjustified" expenses and that the City had been deprived of due process in participating in the Interim Increase. The Division replied to the protest by letter on December 28, 2001. In that letter the Division noted that the protest addressed items that the staff normally looks into as part of its ratemaking function and that the concerns expressed did not apply to the issue of whether or not the utility was operating at a loss. Staff addressed each item in the protest, describing how the issues were ratemaking issues and not an issue of adequate cash flow, and went over each area of concern, describing how that area would be investigated and the normal standards upon which staff determined reasonableness.

The City then filed an application for rehearing (A.01-11-030, November 26, 2001) of the cash-flow resolution. In its application the City claimed it should have been allowed to review the proposed resolution for 30 days under Public Utilities Code Section 311 (g) (2) and that the resolution was materially in error because it claimed that no protests had been filed, when, in fact, the City had protested. The Commission decided the rehearing application in D.02-03-060 issued March 21, 2002. The decision granted limited rehearing to modify the resolution to note that the resolution had been protested, but found that the City's due process right had not been violated by the resolution:

"because the City will be able to raise these issues in Phase Two of the general rate case. Further, if the City is dissatisfied with the resolution of the general rate case proceeding, it will be able to apply for rehearing after our Decision (sic) is issued so long as it becomes a formal party in the next phase of the proceeding. We encourage the City to become a formal party and actively participate in this proceeding so that the guarantees of right that formal parties have will not be denied them in the future." (D.02-03-060, p. 4)

As part of the Division's rate increase investigation a financial audit of PAWW was conducted by ACB. The results of the audit were set forth in a Staff Audit Report, dated November 26, 2001, and concluded that PAWW operated at a loss of \$56,687 in 2000. This audit report is attached to this resolution as Attachment One.

On February 14, 2002 the Chief of the Water Division received by facsimile a letter from Debra Keipp, former Planning Commission and City Council member of Point Arena, protesting the “manipulative City-sponsored protest of the Point Arena Water Works Rate Increase, requested January 30, 2002 by PAWW.” Ms. Keipp alleges that the City intends to take over PAWW and that Mayor Dahlhoff and her husband, Eric, were “manipulating the constituency of the City of Point Arena, relaying half-truths” and requested an investigation into the way the City of Point Arena is run and its true intent as far as the take over. She was concerned because while “Mr. Hay always fixes broken mains and connections” the City does not do so with broken sewer lines.

The Division conducted a second informal public meeting regarding the rate increase request on February 26, 2002. Approximately 60 individuals attended. The primary concerns were the size of the rate increase, the Garcia River Surcharge over-collection, and the over-collection of the 5/8” meter customers. In addition to the concerns mentioned above, some of the customers expressed a desire for the City to take over (buy) the PAWW system.

Staff had nearly completed its research by March 21, when D.02-03-060, the Commission’s rehearing decision was issued. Therefore, staff continued its preparations and issued its staff report in June of 2002 in the hope that the City would find it adequately addressed all its concerns. The report was mailed to PAWW and the Mayor on June 5, 2002 and later, on July 2, 2002, to all customers who requested a copy. The staff report is attached to this resolution as Attachment Two.

U-9-SM, Section F, paragraph 14 requires staff to prepare a resolution putting into place rates to recover the costs staff has found to be reasonable in the Staff Report. This allows the small water company to charge compensatory rates while any remaining differences of opinion are ironed out. Staff prepared this resolution (W-4343) in draft form and mailed it to the Mayor and all interested parties on July 2, 2002. The draft resolution did not provide for turning the proceeding formal, because staff hoped the staff determinations would be adequate. The City was the only party that commented on the draft resolution (see Comments paragraph, below).

DISCUSSION

The Division made an independent analysis of PAWW’s summary of earnings and issued its report in June, 2002. Appendix A shows PAWW’s and the Division’s estimates of the summary of earnings at present, proposed, and recommended rates for test year 2002. Appendix A also shows differences in estimates of revenues, expenses, and rate base.

In its investigation, the staff discovered that upon implementing its newly authorized rates pursuant to Res. W-3594, dated June 19, 1991, PAWW began incorrectly assessing its 5/8 X 3/4-inch metered customers with the 3/4 -inch metered service charge rate, an initial overcharge of \$3.15 per month per customer (\$15.20 versus \$12.05). The utility assessed this incorrect rate up until the interim rates authorized by Res. W-4308 were implemented in January 2002. It may be that the incorrect billing was inadvertent on the part of PAWW. However, even though the Staff's audit shows that PAWW has been losing money since 1994 (even with the incorrect billing), the utility still was in violation of Section 532 of the PU Code. Therefore, the Division recommends that PAWW be required to refund three years (1999, 2000 and 2001) of the over-collection to each affected customer over a twelve-month period. This is consistent with Section 736 of the PU Code that limits the claim for damages resulting from violations of any of the provisions of Section 532 of the Code to three years. The total over-collection from January 1, 1999 through December 31, 2001 was \$17,965. The utility agrees with the reasonableness of this refund.

Since 1978, PAWW has had a surcharge in place to recover the cost related to the Garcia River well and pipeline that were installed in 1978. The costs were financed using a Small Business Administration (SBA) loan. The purpose of the surcharge was to repay the SBA loan payment of \$790 per month. During the first twelve years the surcharge did not collect sufficient amounts to pay the loan so an under-collection occurred and PAWW had to make up the difference. Since 1993 the amounts collected exceeded the amount needed to pay the loan payments. As of December 31, 2001, PAWW had collected \$59,904, which exceeds the current need to pay down the loan balance of \$56,044. PAWW eliminated the surcharge on December 31, 2001. The Division recommends that the \$3,860 over-collection be refunded to customers via a credit on each monthly bill for a period of twelve months as shown below:

Refund of Garcia Well Surcharge

<u>Meter Size</u>	<u>Number</u>	<u>Refund</u>	<u>Revenue</u>	<u>12-month</u>
5/8 x 3/4 - inch	152	\$17.73	\$2,695	\$1.48
3/4 - inch	10	22.38	224	1.87
1 - inch	10	27.96	280	2.33
2 - inch	5	52.18	261	4.35
6 - inch	2	200.12	<u>400</u>	16.68
			\$3,860	

PAWW has a tariff schedule, Schedule No. 9-MIUL, for untreated industrial water. The schedule was created for untreated water used by Bed Rock, the rock and gravel company owned by the Hay Family. Over the years, Bed Rock has been the only

customer to use the industrial tariff rate. The water rate for this tariff schedule is \$2.28 per thousand gallons (or \$1.71 per hundred cubic feet). By contrast, the residential rate in 2000 for treated water was \$2.66 per hundred cubic feet (Ccf) (General Metered Service Tariff Schedule No. 1).

Prior to 1994, Bed Rock was located next to the incoming water line from the Garcia River well and was able to receive untreated water. Bed Rock used untreated water for its cement mixing operations. Then in 1994, Bed Rock moved up the street, so the only way for it to receive untreated water was to install a new water line. Rather than incur this cost, PAWW started to deliver treated water to Bed Rock, but continued to charge the untreated industrial tariff.

The average annual difference in revenue between the untreated and treated schedules is less than \$400 (1984 through 2000). Division staff's investigation indicates that PAWW has been losing money every year since 1994 and at an amount exceeding \$400. Since rates haven't been increased since 1991, the \$400 differential would have had no adverse impact on other PAWW customers. All that has happened is that PAWW's loss per year has been \$400 greater than it would have been if Bed Rock had been paying the higher treated-water rate. Nonetheless, we cannot sanction a discriminatory treatment that permits one customer, especially one owned by the owner and manager of the utility, to pay a lower amount than other customers receiving the same quality water. Accordingly, the issue of the appropriate recovery of improperly lost revenues owed by customer Bed Rock should be resolved in the formal proceeding (discussed *infra*) established by this order. We do note that Bed Rock is now paying the same rate as residential customers as a result of the interim increase authorized by Res. W-4308.

PAWW requested rates that it estimated would produce a rate of return on rate base of 15.00%. The Summary of Earnings in Appendix A shows a rate of return of 13.00% at the Division's recommended rates. This rate of return is the midpoint of the rate of return range recommended by the ACB for Class D water utilities. Under guidelines established by D.92-03-093, the Commission must calculate net revenue by both the return on rate base and operating ratio methods that determine revenue and select the method that produces the most revenue. The Division evaluated the net revenue using both methods and determined that the return on rate base method produces the most revenue. PAWW accepts this revenue requirement.

PAWW provides metered service to 179 customers. Current Commission rate design policy for metered service allows Class D water companies (companies with less than 500 service connections) to collect 100% of its fixed costs in the service charge portion of its rates. PAWW's present rates fall significantly short of this allowance by recovering only about 50% of its fixed costs in the service charge portion of Schedule No. 1, General Metered Service. The Division's proposed rates in Appendix B raises the percentage of

fixed cost recovery in the service charge to approximately 68%. The percent recovery can not go any higher because of the rate design policy that restricts any one customer from experiencing an increase in rates that is more than twice the system average increase authorized. The Division recommends that in future general rate increase requests filed by PAWW, the percentage of fixed costs recovered by the service charge be raised until such time that 100% recovery is achieved.

A comparison of customer bills for PAWW is shown in Appendix C. At Division's recommended rates, a monthly bill for a residential customer using 630 cubic feet will be increased from \$47.30 to \$74.18 or 56.8%. The adopted quantities and tax calculations are shown in Appendix D.

The Division recommends that the Commission authorize a rate increase of \$70,137 or 56.9%, subject to refund. The new rate will increase estimated annual revenues from \$123,278 to \$193,415 at recommended rates as shown in Appendix A.

NOTICE

A notice of the proposed increase in rates initially filed by PAWW was mailed to each customer on November 27, 2000. The notice of the revised request addressed in this resolution was mailed to each customer on January 30, 2002. The Division has received 25 letters including 11 form letters protesting the increase.

COMPLIANCE

Service is satisfactory.

There are no significant service problems requiring corrective action.

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required.

PAWW's 2000 Consumer Confidence Report filed with the Department of Health Services and the most recent water sample tested on June 26, 2001 indicated that the water quality meets all State requirements and there is no violation of reporting requirements.

COMMENTS

On July 2, 2002, the Commission mailed the draft resolution of the Water Division in this matter to parties in accordance with Public Utilities Code Section 311(g)(1) and Rule

77.7 of the Rules of Practice and Procedure. The only response received by the Division was from the City of Point Arena. All but one of the comments on expenses submitted by the City were concerns that it has communicated to the Division staff throughout the processing of the rate case. Also, the City recommended that the utility be allowed interim revenues of \$100,000 per year (a \$23,278 decrease from existing interim rates) and that the proceeding be turned formal. The Division staff responded to the differences in expenses both orally and in writing and feels that it has taken each and every one of the City's expressed concerns into consideration in its recommendations to the Commission. The City still disagrees. In view of the differences of opinion between the Division and the City, and the fact that the City relies upon the representation in D.02-03-060, that it would have an opportunity to participate in a formal proceeding, the Division recommends this rate increase be made subject to refund and that the draft advice letter requesting the increase in this informal rate case be converted into a formal application. By establishing staff recommended rates, the utility would not continue to suffer the long term inequity of receiving revenues inadequate to provide reliable service at fair and reasonable rates if the Commission ultimately maintains these revenues. By making the staff recommended rates subject to refund, the formal hearings can proceed. All parties will get a full opportunity to challenge or substantiate each revenue component and no party will receive a perverse benefit from the additional delay that formal hearings will cause.

With this matter being converted to a formal proceeding, PAWW will incur additional legal and other expenses associated with the formal hearing that will be conducted. In view of this, Division recommends that PAWW be authorized to establish and maintain a memorandum account to track legal and other expenses incurred during the formal proceeding. Once the rate case has reached a conclusion, PAWW should be authorized to file an advice letter requesting recovery of costs recorded in the memorandum account, subject to Commission review for reasonableness of the account and the expenses tracked.

The City did raise one issue in its comments that has not been discussed between the City and the Division to this point. The issue concerned an income tax refund associated with a contribution-in-aid-of-construction (CIAC) to PAWW by AT&T in the early 1990's. Because CIAC was considered taxable income at that time, AT&T's CIAC to PAWW included a gross-up for the income tax, which PAWW was required to pay on the contribution. Subsequent to the income tax being paid and the construction work being completed, PAWW discovered that the IRS exempted certain contributed projects from income taxes and believed that the project contributed to PAWW by AT&T was such a project. PAWW provided AT&T with this information so that it could pursue a possible refund. AT&T informed PAWW that it was not interested in pursuing the matter and that PAWW was free to do so if it wanted to. PAWW did pursue the matter at its own expense and was granted a tax refund. In his review of

PAWW's records, the Division auditor determined that because the tax refund money was recovered by the utility at its own expense and because the money was used for operation and maintenance expenses at a time when utility revenues did not support utility expenses, the tax refund should not have any effect on rates to be set prospectively in this rate case. The City believes that ratepayers should reap the benefits of the refund by applying it to rate base as CIAC in this rate case. This difference of opinion can be addressed in the formal proceeding recommended above.

FINDINGS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted, subject to refund.
2. Based on the reports before us, the rates recommended by the Division (Appendix B) are reasonable and should be authorized, subject to refund pending a final determination by the Commission following final hearing of disputed issues.
3. This rate increase is adopted on an interim basis to provide PAWW with needed revenue.
4. At this time, the quantities (Appendix D) used to develop the Division recommendations are reasonable and should be adopted, subject to modification pending final determination of the Commission upon conclusion of formal hearing of disputed issues.
5. PAWW should be required to refund 3 years of over-collection to its 5/8 x 3/4-inch metered customers it provided service to in 1999, 2000, and 2001 by providing a credit of \$9.57 per month for twelve months commencing with the first billing after the effective date of new rates authorized in this resolution.
6. PAWW should be required to provide Garcia River Surcharge credits to customers for twelve months commencing with the first billing, after the effective date of new rates. Refund should be as follows:

Refund of Garcia Well Surcharge

<u>Meter Size</u>	<u>Number</u>	<u>Refund</u>	<u>Revenue</u>	<u>12-month</u>
5/8 x 3/4 - inch	152	\$17.73	\$2,695	\$1.48
3/4 - inch	10	22.38	224	1.87
1 - inch	10	27.96	280	2.33
2 - inch	5	52.18	261	4.35

6 – inch 2 200.12 400 16.68

7. PAWW should be allowed to track legal and other costs incurred in the formal phase of this proceeding in a memorandum account.
8. Because the utility continues to suffer a revenue shortfall this resolution should be effective immediately.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Point Arena Water Works, Inc. to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate schedules: Schedule No. 1, General Metered Service and Schedule No. 9-MIUL, Limited Untreated Industrial Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing. The new summary of earnings and revised rate schedule is adopted, subject to refund consistent with our final determination in the formal proceeding established in Ordering Paragraph 4 below.
2. Point Arena Water Works, Inc. shall provide overcharge credits to its 1999, 2000, and 2001 5/8-inch metered customers in installments of \$9.57 per month for twelve months commencing with the first billing, after the effective date of new rates authorized in this resolution. This order is subject to modification consistent with our final opinion in the formal proceeding established in Ordering Paragraph 4 below.
3. Point Arena Water Works, Inc. shall provide Garcia River Surcharge credits to customers for twelve months commencing with the first billing, after the effective date of new rates authorized in this resolution. Refund should be as set forth in Finding 5 above, and shall be subject to modification consistent with our final opinion in the formal proceeding established in Ordering Paragraph 4 below.
4. Within 30 days the Water Division shall collect all documents relating to the record in this informal GRC and deliver them (1 original and 7 copies) to the Chief of the Administrative Law Judge Division who shall, pursuant to D.02-03-060, convert this draft advice letter filing to a formal application and assign to it an application proceeding number. Formal Hearings will be held and Point Arena Water Works, the City of Point Arena, and the Water Division shall be named as parties in this proceeding.

5. Point Arena Water Works, Inc. is authorized to establish a memorandum account to track legal and other expenses associated with the formal proceeding to take place in this matter.
6. Point Arena Water Works, Inc. is authorized to file an advice letter requesting recovery of costs recorded in the memorandum account subject to reasonableness review once the formal rate proceeding is concluded.
7. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 24, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

APPENDIX A
POINT ARENA WATER WORKS, INC.
SUMMARY OF EARNINGS
Test Year 2002

	Utility Estimated		Branch Estimated		Staff Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues</u>					
Metered Rate	\$80,095	\$250,259	\$123,278	\$250,259	\$193,415
<u>Operating Expenses:</u>					
Power	13,000	13,000	16,170	16,170	16,170
Other Vol. Related Costs	1,000	1,000	459	459	459
Employee Labor	6,000	6,000	5,640	5,640	5,640
Materials	15,000	15,000	5,840	5,840	5,840
Contract Work	20,000	20,000	17,790	17,790	17,790
Transportation	10,000	10,000	7,140	7,140	7,140
Other Plant Maintenance	5,500	5,500	5,500	5,500	5,500
Office Salaries	22,500	22,500	20,500	20,500	20,500
Management Salaries	24,000	24,000	19,500	19,500	19,500
Uncollectibles	2,000	2,000	1,115	1,115	1,115
Office Services & Rentals	9,600	9,600	6,000	6,000	6,000
Office Suppl. & Expenses	5,000	5,000	3,500	3,500	3,500
Professional Services	20,000	20,000	7,450	7,450	7,450
Insurance	17,500	17,500	11,350	11,350	11,350
Regulatory Expense	2,500	2,500	2,403	2,403	2,403
General Expenses	500	500	420	420	420
Subtotal	174,100	174,100	130,777	130,777	130,777
Depreciation Expense	8,200	8,200	8,263	8,263	8,263
Taxes Oth than Inc Taxes	12,000	12,000	8,126	8,126	8,126
Income Tax Expense	<u>800</u>	<u>13,459</u>	<u>800</u>	<u>29,316</u>	<u>10,412</u>
Total Expenses	195,100	207,759	147,966	176,482	157,578
Net Revenue	(115,005)	42,500	(24,688)	73,777	35,837
<u>Rate Base</u>					
Average Plant	1,325,173	1,325,173	1,326,763	1,326,763	1,326,763
Aver. Depr. Reserve	(100,100)	(100,100)	(112,478)	(112,478)	(112,478)
Net Plant	1,225,073	1,225,073	1,214,285	1,214,285	1,214,285
Less: Contributions	740,861	740,861	740,861	740,861	740,861
Surcharges	197,682	197,682	197,682	197,682	197,682
Rate Base	286,530	286,530	275,742	275,742	275,742
Rate of Return	Loss	15.00%	Loss	26.76%	13.00%

**(END OF APPENDIX A)
APPENDIX B**

POINT ARENA WATER WORKS, INC.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Point Arena and vicinity and Whiskey Shoals Subdivision Unit
Nos. 1, 2 & 3, Mendocino County.

RATES

Quantity Rate:

All water, per 100 cu. ft..... \$ 4.96 (I)

Per Meter Per Month

Service Charge:

For	5/8x3/4-inch meter.....	\$42.93	(I)
For	3/4-inch meter.....	54.18	(I)
For	1-inch meter.....	67.69	(I)
For	1-1/2-inch meter.....	94.80	(I)
For	2-inch meter.....	126.33	(I)
For	3-inch meter.....	214.33	(I)
For	4-inch meter.....	291.52	(I)
For	6-inch meter.....	484.47	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added to the charge for water used at the Quantity Rate.

SPECIAL CONDITIONS

1. In addition to the above rates and charges rendered to all bills under this schedule, a surcharge will be added as set forth in Schedule No. 2-X, General Metered Service (C) Surcharge.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C

POINT ARENA WATER WORKS INC.

COMPARISON OF RATES

Test Year 2002

A comparison of PAWW's present rates and the Branch's recommended rates is shown below:

	<u>Present Rates</u>	<u>Recommended Rates</u>
<u>QUANTITY RATE</u>		
All water, per 100 cu. ft:	\$4.32	\$4.96

SERVICE CHARGE

	<u>Per Meter Per Month</u>	
For 5/8x3/4-inch meter	\$ 20.08	\$ 42.98
For 3/4-inch meter	25.34	54.18
For 1-inch meter	31.66	67.69
For 1-1/2-inch meter	44.34	94.80
For 2-inch meter	59.09	126.33
For 3-inch meter	100.25	214.33
For 4-inch meter	136.35	291.52
For 6-inch meter	226.60	484.47

A comparison of monthly bills at various consumption rates is as follows:

Quantity Used <u>100 cu. ft</u>	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$20.08	\$42.93	\$22.85	113.8%
6.3	47.30	74.18	26.88	56.8
10.0	63.28	92.53	29.25	46.2

(END OF APPENDIX C)

APPENDIX D
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POINT ARENA WATER WORKS INC.

ADOPTED QUANTITIES

Test Year 2002

EXPENSES

1. Purchased Power	\$16,170
Pacific Gas & Electric Company	
Rate Schedule	A-1
Summer (\$0.14870/kWh) x 33,877 kWh	\$5,038
Winter (\$0.10193/kWh) x 27,212 kWh	\$2,774
Customer Charge Polyphase four meters per year	\$576
Subtotal	\$8,388
Rate Schedule	A-6
Summer Peak (\$0.23258/kWh) x 3,511 kWh	\$817
Summer Part-Peak (\$0.10288/kWh) x 3,716 kWh	\$382
Summer Off-Peak (\$0.05618/kWh) x 4,635 kWh	\$260
Winter Part-Peak (\$0.11562/kWh) x 8,168 kWh	\$944
Winter Off-Peak (\$0.07169/kWh) x 4,644 kWh	\$333
Meter Charge per meter per year, Rate A-6	\$41
Customer Charge Polyphase per meter per year	\$72
Subtotal	\$2,849
Energy Procurement Surcharges	
Rate Schedule	A-1
Summer (\$0.07140/kWh) x 33,877 kWh	\$2,419
Winter (\$0.03838/kWh) x 27,212 kWh	\$1,044
Subtotal	\$3,463
Rate Schedule	A-6
Summer Peak (\$0.11064/kWh) x 3,511 kWh	\$388
Summer Part-Peak (\$0.05551/kWh) x 3,716 kWh	\$206
Summer Off-Peak (\$0.04551/kWh) x 4,635 kWh	\$211
Winter Part-Peak (\$0.05551/kWh) x 8,168 kWh	\$453
Winter Off-Peak (\$0.04551/kWh) x 4,644 kWh	\$212
Subtotal	\$1,470
2. Insurance Expense	\$11,350
3. County Taxes	\$2,775
4. Payroll Taxes	\$4,450

Service Connections

Metered Rate: All meter sizes	179
Meter Water Sales Used to Design Rates	16,395.4 Ccf

APPENDIX D

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POINT ARENA WATER WORKS, INC.

ADOPTED INCOME TAX CALCULATIONS

Test Year 2002

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$193,415	\$193,415
2.	Expenses	\$130,777	\$130,777
3.	Unsecured Property Taxes	\$ 2,775	\$ 2,775
4.	Depreciation	\$ 8,263	\$ 8,263
5.	Payroll Taxes	\$ 4,450	\$ 4,450
6.	License Fees	\$ 901	\$ 901
7.	State Taxable Income	\$ 46,249	
8.	State Tax (@8.84%)	\$ 4,088	\$ 4,088
		=====	=====
9.	Federal Taxable Income		\$ 42,161
10.	Federal Income Tax (@15%)		\$ 6,324
11.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 10,412

(END OF APPENDIX D)

ATTACHMENT ONE

Audit Report **(Page 1 of 14)**

Point Arena Water Works, Inc

SUMMARY –

The staff finds that in calendar year 2000, Point Arena Water Works, Inc. (PAWW) had a utility operating loss of \$56,687 as compared to the reported loss of \$80,825, a difference of \$24,138.

The largest differences are due to \$17,863 in depreciation that should not be included with operating expenses and \$12,450 in expenses that should be amortized over three or more years rather than being expensed in 2000. The audit also found and removed \$9,945 in expenses that were accrued in error due to unclear communication between PAWW and its accountant.

PAWW's reported revenue included surcharge revenue of \$17,572 that is specifically designated to pay for a Small Business Administration (SBA) Loan and, therefore, should not be included as operating income for this general rate case. The staff recommends that this surcharge should be eliminated.

BACKGROUND –

Point Arena Water Works, Inc. (PAWW) is an investor owned water utility regulated by the California Public Utilities Commission. PAWW serves 181 customers in its service territory. William (Bill) and Karen Hay own 100% of PAWW stock. PAWW has been in the water business since at least 1902 and has been partially or wholly owned by Mr. Hay's family since 1931. A detailed history of the ownership can be found in Decision 97-09-097, dated September 24, 1997.

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The Hay's and their sons also own Bed Rock, Inc. (Bed Rock), a purveyor of rock products and concrete that was organized in 1986. PAWW shares an office and shop with Bed Rock and uses Bed Rock tools, equipment and vehicles. PAWW has one part-time employee who does office work. Bed Rock employees perform most of the work at PAWW.

PAWW's last general rate case was in 1991. The general rate case previous to that was in 1981, so that PAWW has had a general rate case about every 10 years. PAWW has indicated that in the last general rate case, it did not attempt to claim all of the expenses that were incurred by Bed Rock. As a result, PAWW has been dependant on Bed Rock for the financial and operational support needed to keep it in operation. Prior to 2000, PAWW did not record the expenses of its water operations that were incurred by Bed Rock unless it actually paid Bed Rock.

In November 2000, PAWW filed for a rate increase of 90%. This request did not include a return on rate base nor did it include any depreciation expense on the plant investment, but it did include un-reimbursed expenses of Bed Rock.

PURPOSE OF THE AUDIT –

This audit commenced in May of 2001. The purpose of the audit was to determine the accuracy of the revenue, expense and utility plant amounts reported on PAWW's 2000 Annual Report in relation to the current general rate case. The year 2000 was chosen because it is the most recent year and is the first year that PAWW attempted to accrue all expenses that relate to the operation of the water system. From those numbers, the California Public Utilities Commission (CPUC) can then apply standards for reasonableness in setting new rates for PAWW.

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The standards for reasonableness that have been followed by the CPUC are guided by decisions of the United States Supreme Court in the *Bluefield*¹, *Hope*² and *Duquesne*³ cases. The court set forth three tests for determining a fair rate of return by state regulatory commissions. These are financial integrity, capital attraction, and comparable earnings. That is, the allowed rate of return should be high enough (1) to maintain the financial integrity of the enterprise, (2) to enable the utility to attract new capital, and (3) to provide a return on common equity that is commensurate with returns on investments in other enterprises with corresponding risk. State regulatory commissions throughout the country for many years have applied these three tests of a fair return that should be allowed a public utility.

In addition to the specific economic tests of a fair return, the Court has enumerated other guidelines which must be considered: that confiscation of property should be avoided, that no one rate can be considered fair at all times, that regulation does not guarantee a fair rate of return (i.e. utilities are protected against arbitrary action of commissions but not normal business hazards or the operation of economic forces) and, that a necessary prerequisite for profitable operations is efficient and economical management. In sum, the concept of a fair rate of return represents a zone of reasonableness bound by the investor interest against confiscation and the consumer interest against unreasonable charges for service.

¹ *Bluefield Water Works Co. v. Public Service Commission*, 262 U.S. 679 (1923).

² *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

³ *Duquesne Light Co. Et Al. v. Barasch Et Al.*, 488 U.S. 299 (1989).

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RESULTS OF THE AUDIT –

The following table presents the audit results and compares them to the amounts reported in the 2000 Annual Report. The audit results below include only items that relate to this general rate increase request. It excludes any item such as depreciation on surcharge plant that should not be considered in the determination of rates in the current general rate case.

Point Arena Water Works, Inc Income Statement Year Ended 12/31/00				
	Acct	Per Audit	Per Annual Report	Difference
Revenue	470	\$ 98,782	\$ 97,667	\$ 1,115
Less: Surcharge Revenue		(17,572)		(17,572)
Total Operating Revenue		81,210	97,667	(16,457)
Purchased Water	610	-	4,800	(4,800)
Power	615	15,579	15,579	-
Other Volume Related Expenses	618	459	459	-
Employee Labor	630	5,071	5,071	-
Materials	640	5,836	12,982	(7,146)
Contract Work	650	19,344	16,335	3,009
Transportation Expenses	660	5,120	6,860	(1,740)
Other Plant Maintenance Expenses	664	5,179	-	5,179
Office Salaries	670	19,364	19,364	-
Management Salaries	671	18,405	23,095	(4,690)
Uncollectible Accounts Expense	676	1,115	-	1,115
Office Services and Rentals	678	7,290	7,290	-
Office Supplies and Expense	681	3,315	3,695	(380)
Professional Services	682	8,314	19,999	(11,685)
Insurance	684	4,175	4,645	(470)
Regulatory Commission Expense	688	1,362	1,362	-
General Expenses	889	882	882	-
Total Operating Expenses		120,810	142,418	(21,608)
Depreciation Expense	403	8,231	26,094	(17,863)
Surcharge Loan Amortization Expense	407	-	-	-
Taxes Other Than Income Taxes	408	8,056	9,180	(1,124)
State Corporate Income Tax Expense	409	800	800	-
Federal Corporate Income Tax Expense				
Total Operating Revenue Deductions		137,897	178,492	(40,595)
Utility Operating Income		\$ (56,687)	\$ (80,825)	\$ 24,138

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REVENUE –

PAWW reported \$97,667 in revenue for the year 2000. The audit found that this amount was the net after uncollectibles of \$1,115 ($\$98,782 - \$1,115 = \$97,667$). The revenue amount included \$17,572 from the Garcia River Surcharge, which is specifically designated to pay for a SBA Loan and should not be treated as operating revenue available for payment of operating expenses, leaving net operating revenue of \$80,095 ($\$97,667 - \$17,572$) to cover operating and general expenses and a return on rate base.

INDUSTRIAL RATES –

PAWW has a tariff schedule, Schedule No. 9-MIUL, for untreated industrial water. Bed Rock is the only customer to use the industrial tariff rate. The water rate for this tariff schedule is \$2.28 per thousand gallons (or \$1.71 per hundred cubic feet). By contrast, the residential rate in 2000 for treated water was \$2.66 per hundred cubic feet (General Metered Service Tariff Schedule No. 1).

Prior to 1994 Bed Rock was located next to the incoming water line from the Garcia River well and was able to receive untreated water. Bed Rock used untreated water for its cement mixing operations. Then in 1994 Bed Rock moved up the street, so the only way for it to receive untreated water was to install a new water line. Rather than incur this cost, PAWW started to deliver treated water to Bed Rock, but continued to charge based on the untreated industrial tariff.

Prior to 2000 the Bed Rock shop used water from its own well. All PAWW customers will benefit if Bed Rock continues to use PAWW water for all of its operations at the industrial park as long as the amount paid by Bed Rock exceeds the variable cost of the water it receives.

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If Bed Rock had been charged at the residential metered rates for its water usage in 2000, PAWW would have received an additional \$1,276. Prior to 2000 the difference would have averaged about \$250 per year.

Recommendation – The industrial tariff schedule should be adjusted or eliminated to reflect the fact that Bed Rock now receives treated water, the same as other customers.

SURCHARGES –

Garcia River Surcharge –

PAWW had one surcharge in 2000 to cover the cost related to the Garcia River well and pipeline that were installed in 1978. The costs were financed using a Small Business Administration (SBA) loan. The purpose of the surcharge was to repay the SBA loan payment of \$790 per month. During the first twelve years the surcharge did not collect sufficient amounts to pay the loan so an under-collection occurred and PAWW had to make up the difference. Since 1993 the amounts collected exceeded the amount needed to pay the loan payments. As of September 8, 2001 PAWW had collected \$56,242 in excess of current needs that should be used to pay down the loan balance of \$57,172.

Recommendation – The over-collections from the Garcia River surcharge should be offset against the loan and the surcharge should be eliminated. Any over-collection remaining should be credited back to customers. Further, the plant financed by this surcharge should be excluded from rate base and the related depreciation expense should be excluded from expenses for ratemaking purposes.

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New Surcharge –

Beginning in 2001, a new surcharge was authorized by Resolution W-4233 (Advice Letters 36 and 37). The purpose of the surcharge is to repay two loans from Bed Rock used for plant improvements at PAWW.

Recommendation – The plant financed by this surcharge should be excluded from rate base and the related depreciation expense should be excluded from expenses for ratemaking purposes. In addition, PAWW should track the amounts collected in a balancing account as directed in Resolution W-4233.

EXPENSES –

Account 610 – Purchased Water – The \$4,800 reported in the 2000 Annual Report under Purchased Water was for the lease of the Garcia River Well site. This amount should be reported under Account 664, Other Plant Maintenance Expense. The balance for Account 610 should be zero (\$0).

Account 615 - Power – PAWW uses electric power to pump water from its wells at the Garcia River and at Whiskey Shoals. It also uses electric power to pump water uphill from the Garcia River to its storage tanks and then on to some parts of its service area. There are a total of 5 electric meters. One booster pump shares an electric meter with the Bed Rock shop.

In the past, PAWW has paid the entire electric bill for this meter in lieu of rent for the land, shop, storage space and tools (not owned by PAWW) used by PAWW. The power bill for the booster pump and shop was \$5,430. The average paid for the booster pump electric power plus rent was about \$450 per month.

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The total of the power bills for 2000 was \$15,579. The total without the booster pump and shop was \$10,149.

The electric usage by PAWW, excluding the meter for the shop and pump, averaged 6,592 KWH per month for the period from January 1998 through July 2001.

Recommendation - For purposes of this rate case, only the electric costs related to PAWW operations should be included for ratemaking purposes. PAWW should explore the feasibility of installing a second meter to separate the shop from the booster pump. PAWW should pay a reasonable amount in rent to Bed Rock for the use of its land, shop, storage space, and tools. If a second meter is not installed then the rent paid to Bed Rock should include a reasonable amount for the electric power costs related to the booster pump.

Account 618 - Other Volume Related – This account includes the cost of chemicals used to treat the water. The audit found \$459 to be the correct amount for this account, as reported in the Annual Report.

Account 630 - Employee Labor – Employee labor of \$5,071 (461 hours) was for meter reading and other work at PAWW by a Bed Rock employee, Ed Christensen. He has performed this work for years and has always been paid by Bed Rock. The year 2000 is the first time the cost has been accrued and reported on the PAWW annual report. PAWW did not have sufficient funds to pay this expense.

Account 640 - Materials – This account includes materials and supplies used in the operation and maintenance of the water system, other than the repair and maintenance materials charged to Contract Work (Account 650) and chemicals

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charged to Other Volume Related Expenses (Account 618). The difference between the audited amount and the amount reported on the 2000 Annual Report is due to reclassifying amounts to Contract Work.

Account 650 - Contract Work – This account includes the cost of all maintenance and repair work not performed by water company employees. The increase in this account results from adding contract work costs that were reported in Account 640 in the 2000 Annual Report. The audit also found and removed \$3,045 for amounts that were accrued twice. The amount in this account includes \$1,709 for water testing.

Account 660 - Transportation – Transportation expense of \$6,860 is based on Bill Hay's recorded time of 343 hours times \$20 per hour. Mr. Hay uses a Bed Rock truck when performing PAWW work. The audit removed the transportation expense for 87 hours (\$1,740) of Mr. Hay's time were related to contract work. The transportation costs related to those hours were included in Account 650. Ed Christensen, a Bed Rock employee, reads the meters for PAWW once a month and performs other work as needed. His time in 2000 amounted to 461 hours. PAWW did not record any expense for transportation costs related to Mr. Christensen's work.

Account 664 - Other Plant Maintenance – This account includes all plant operation and maintenance expenses not related to volume of water, and not separately provided for in other accounts. The \$5,179 found in the audit includes \$4,800 in lease expense for the Garcia Well site and \$379 for telephone charges between the well and the storage tanks.

Account 670 - Office Salaries – PAWW has one part-time office employee who works exclusively on PAWW business. When that employee is not available,

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Bed Rock employees fill in as needed. However, Bed Rock has historically paid the cost for all of these employees. PAWW has only recorded this expense when it had sufficient funds to reimburse Bed Rock. In 2000, the cost of these employees was accrued as a payable by PAWW to Bed Rock. The total accrual for their wages was \$19,364.

Account 671 – Management Salaries – All of the salary expense for an owner-operator is included in this account, regardless of what work was performed. The audit found that PAWW pays Mr. Hay a fee of \$800 per month to manage the company, when funds are available. In 2000, the fee was paid eight times for a total of \$6,400.

In addition, Mr. Hay tracks his time when he performs other work for PAWW, such as repairing pipes, taking water samples and performing maintenance on the system. PAWW was unable to pay Mr. Hay for the 343 hours he accumulated in 2000 performing these and other non-management tasks. In the past, an expense related to this time was not recorded unless it was actually paid. In 2000 this expense was accrued on the books at \$35 per hour ($\$12,005 = \35×343).

For the 2000 annual report, the number of hours accrued was from the 1999 total of 477 hours instead of the 2000 total of 343 hours. The audited amount of \$18,405 ($\$6,400 + \$12,005$) is based on the correct number of hours in 2000.

Account 674 - Employee Pensions and Benefits – PAWW did not pay for nor did it accrue any employee pensions and benefits.

Account 676 - Uncollectible – PAWW did not report uncollectible expenses on its annual report. Instead, it reported as revenue the net amount after

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uncollectibles. A review of the annual billings showed that the uncollectible amount was \$1,115 or a rate of 1.13% in 2000.

Account 678 - Office Services and Rentals – PAWW shares an office with Bed Rock and accrued rent at the rate of \$600 per month. The rental charge covers use of the facilities, office furniture and equipment, and power.

Account 681 - Office Supplies and Expense – This account includes the cost of office supplies and expenses, including printing, stationary, general accounting supplies, repair, maintenance and telephone, utilities and other office expense. The difference in this account is due to reclassifying \$330 to Account 688, Regulatory Commission Expense, which relates to the general rate case and should be treated as discussed below.

Account 682 - Professional Services – Professional Services includes the fees of independent accountants, engineers, lawyers, and similar professionals. The amount recorded in this account includes \$11,685 related to the current general rate case. This amount should not be included in the calculation of Professional Services. It is a regulatory commission expense and should be accounted for using the normal method of handling general rate case costs, as discussed below under Account 688.

Account 684 - Insurance – This account should include general insurance, health insurance and workers compensation insurance. The amount in this account includes general insurance and workers compensation insurance, as PAWW has not paid a share of its employees' health insurance. The difference in this account is the workers compensation insurance related to the reduction in the Management Salaries.

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Account 688 - Regulatory Commission Expense – The amount recorded in this account should include fees paid to the CPUC plus the costs related to meeting regulatory obligations. The amount reported in the 2000 Annual Report includes only the PUC fee amount. The costs related to a general rate case are normally charged to account 180, Deferred Charges and amortized by charges to this account as directed by the Commission. There was \$12,015 related to the general rate case included under Accounts 681 and 682 in the 2000 Annual Report.

Account 689 - General Expenses – This account is used to record expenses that are not includible in other operating expense accounts. PAWW uses this account to record bank service charges. Of the \$882 total, \$150 comes from the Garcia River surcharge bank account and should not be included in expenses for ratemaking purposes. In addition, \$312 was for overdraft charges. If future rates are sufficient to cover all costs plus a return on rate base then there should be no overdraft charges. Therefore, overdraft charges should only be included in ratemaking expenses if rates are not sufficient to cover costs and a return on rate base.

Account 403 - Depreciation Expense – The amount recorded (\$26,094) on the Annual Report includes depreciation on all assets. Depreciation (\$13,425) for Contributions in Aid of Construction (CIAC) should not be recorded in this account, but it should be debited to Account 108, Amortization of CIAC. In addition, the Depreciation on Plant (\$4,438) that is covered by surcharges should not be included in the Depreciation Expense for ratemaking purposes. The remaining depreciation amount is \$8,231, and was calculated using a 2.0% depreciation rate.

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Account 408 - Taxes Other Than Income Taxes – Taxes other than income taxes consisted of Property Tax (\$2,887), License Fees (\$1,530) and Payroll Taxes (\$4,763). The License Fees included an amount of \$850 for a 10-year permit to use water from the Garcia River. This charge should be capitalized and amortized over 10 years. In addition, the audit reduced the amount for payroll taxes by \$359 to \$4,404.

UTILITY PLANT AND RATE BASE –

Utility Plant –

The audit found that the total utility plant reported of \$1,325,173 is accurate. Of that amount, \$740,861 was funded with contributions in aid of construction and \$197,682 was funded with surcharges. The balance of \$386,630 was funded by PAWW.

Point Arena Water Works Utility Plant 12/31/00				
Description	Total	CIAC	Surcharge	Rate Base
Gross Utility Plant	\$ 1,325,173	\$ 740,861	\$ 197,682	\$ 386,630
Accumulated Depreciation	331,092	152,785	78,207	100,100
Net Plant	<u>\$ 994,081</u>	<u>\$ 588,076</u>	<u>\$ 119,475</u>	<u>\$ 286,530</u>

Since the last general rate case in 1991, PAWW has added \$215,531 in rate base plant. After accumulated depreciation, the net rate base plant was \$286,530 at December 31, 2000.

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The auditor found that the lands on which the tanks and treatment facilities sit are not owned by PAWW nor does PAWW lease the land. PAWW should either acquire that land or it should execute a lease agreement that ensures its use of the land.

(END OF ATTACHMENT ONE)

ATTACHMENT TWO

CALIFORNIA PUBLIC UTILITIES COMMISSION

Water Division

**STAFF REPORT ON THE DRAFT ADVICE LETTER
REQUESTING A GENERAL RATE INCREASE OF
POINT ARENA WATER WORKS, INC.**

(Page 1 of 23)

Report written by

**Peter T. Liu
Senior Utilities Engineer
June, 2002**

POINT ARENA WATER WORKS, INC.
(Page 2 of 23)

I. INTRODUCTION

Point Arena Water Works, Inc. (PAWW) filed a draft advice letter with the Water Division (Division) on June 26, 2000 requesting an increase in rates producing additional revenue of \$70,000 or 90%. The utility completely revised its request on January 11, 2001, and again on January 14, 2002. PAWW's final revised rate increase request draft advice letter filing requests authority under General Order 96-A and Section 454 of the Public Utilities (PU) Code to increase its rates producing additional revenue of \$170,664 or 213% to cover increased operating costs and to earn a reasonable return on investment.

II. BACKGROUND

On October 25, 2001, pursuant to Res. W-4308, the Commission granted PAWW an interim increase in gross annual revenue of \$47,677 or 62.3% subject to refund, pending the final resolution of this rate case. Division Standard Practice U-9-SM, "Standard Practice for Processing Informal General Rate Cases of Class B, C, and D Water Utilities and Service Guarantee Plan" requires that within 7 days of receipt of a rate increase request, the Division's Audit and Compliance Branch (ACB) will prepare a cash flow analysis on the requesting utility. If the analysis indicates that the utility is operating in the red on a cash flow basis, ACB will prepare a resolution to authorize an immediate rate increase adequate to meet the cash flow needs. It wasn't until PAWW filed its 2000 Annual Report to the Commission in August 2001, that ACB was able to conduct such a cash flow analysis. The analysis indicated that PAWW was operating at a loss and that interim rate relief was justified. This conclusion prompted the interim increase authorized by Res. W-4308 described above. The increase provided PAWW with sufficient monies to pay its current cash operating expenses with no rate of return on its rate base.

As part of the Division's rate increase investigation a financial audit of PAWW was conducted by ACB. The results of the audit were set forth in a Staff Audit Report, dated November 26, 2001, and concluded that

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PAWW operated at a loss of approximately \$56,700 in 2000. This verified that the interim rate increase authorization was valid.

PAWW's last general rate increase was authorized pursuant to Resolution (Res.) W-3594, dated June 21, 1991. Current rates became effective on November 5, 2001 pursuant to Res. W-4308 that granted the interim increase of \$47,677 or 62.3% as mentioned above.

PAWW is a corporation owned by William Hay. The Hay Family also owns Bed Rock, Inc. (Bed Rock), a purveyor of rock products and concrete. Bed Rock was organized in 1986. PAWW shares an office and shop with Bed Rock and uses Bed Rock tools, equipment, and vehicles. PAWW has one part-time employee who does office work. Bed Rock employees perform most of the work at PAWW.

PAWW has indicated that in the last general rate case, it did not attempt to claim all of the expenses that were incurred by Bed Rock. As a result, PAWW indicates that it has been dependent on Bed Rock for the financial and operational support needed to keep it in operation. Prior to 2000, PAWW did not record the expenses of its water operations that were incurred by Bed Rock unless it actually paid Bed Rock.

III. STAFF AUDIT REPORT

The following table presents the audit results and compares them to the amounts reported in PAWW's 2000 Annual Report. The audit results below include only items that relate to this general rate increase request. It excludes any item such as description on surcharge plant that should not be considered in the determination of rates in the current general rate case.

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Point Arena Water Works, Inc.
Income Statement Year Ended 12/31/00

	Acct	Per Audit	Per Annual Report	Difference
Revenue	470	\$ 98,782	\$ 97,667	\$ 1,115
Less: Surcharge Revenue		(17,572)		(17,572)
Total Operating Revenue		81,210	97,667	(16,457)
Purchased Water	610	-	4,800	(4,800)
Power	615	15,579	15,579	-
Other Vol. Related Expenses	618	459	459	-
Employee Labor	630	5,071	5,071	-
Materials	640	5,836	12,982	(7,146)
Contract Work	650	19,344	16,335	3,009
Transportation Expenses	660	5,120	6,860	(1,740)
Other Plant Maint. Exps.	664	5,179	-	5,179
Office Salaries	670	19,364	19,364	-
Management Salaries	671	18,405	23,095	(4,690)
Uncol.Accts. Exp.	676	1,115	-	1,115
Office Servs. and Rentals	678	7,290	7,290	-
Office Suppls. & Expense	681	3,315	3,695	(380)
Professional Services	682	8,314	19,999	(11,685)
Insurance	684	4,175	4,645	(470)
Reg. Comm. Expense	688	1,362	1,362	-
General Expenses	889	882	882	-
Total Oper. Expenses		120,810	142,418	(21,608)
Depreciation Exp.	403	8,231	26,094	(17,863)
Surch. Loan Amort. Exps.	407	-		-
Taxes Oth Than Inc. Tax	408	8,056	9,180	(1,124)
State Corp. Inc. Tax Exp.	409	800	800	-
Fed. Corp. Inc. Tax Ex p.				
Total Oper. Rev. Ded.		137,897	178,492	(40,595)
Utility Oper. Income		\$(56,687)	\$(80,825)	\$24,138

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IV. SYSTEM DESCRIPTION

PAWW is a corporation owned by William Hay providing water service to 179 metered rate connections in the City of Point Arena and vicinity and Whiskey Shoals Subdivision Units 1, 2, and 3, Mendocino County.

PAWW has two service areas. System #1 serves the entire City of Point Arena. Water is pumped from three wells. Well #1 is approximately 350 feet south of the Garcia River, Well #2 is 250 feet from Well #1, and Well #3 is located on Riverside Drive east of the main storage tanks. Well #2 and Well #3 are standby wells that only produce a couple of gallons per minute. A 15 horsepower submersible pump pumps water from Well #1. The water travels through an 8" PVC line and then through a 6" PVC line to the 125,000-gallon storage tank where chlorine is added for coliform. The water then enters into a 285,000-gallon main storage tank and then distributed to a 125,000-gallon tank for zone 1 which is all of the downtown area and the Arena Cove.

Zone 2 gets its water from the 125,000-gallon tank with two 15 horsepower booster pumps. The pressurized water serves the entire uptown area and the east side of Point Arena where the Industrial Park is located. One more pressure booster pump is located at the Bed Rock shop to ensure adequate pressure. There is a fire pump located at the main storage tank giving adequate water volume for fire protection.

System #2 is at Whiskey Shoals located two miles south of Point Arena on the west side of Highway 1. It serves a small subdivision. There are two low volume wells and one 22,000-gallon storage tank to serve this area.

PAWW has a total distribution service line including Whiskey Shoals of 47,160 feet ranging from 1-1/2" to 12" in diameter.

V. SUMMARY OF EARNINGS

The Division performed an independent analysis of PAWW's summary of earnings. Appendix A shows PAWW's and the Division's summary of earnings at present, proposed, and recommended rates for test year
(Page 6 of 23)

2002. Appendix A shows differences in estimates of revenues, expenses, and rate base.

Revenue

The difference between the Division's and PAWW's estimates of revenue at present rates (columns 1 and 3 in Appendix A) is due to the Division basing its estimate on the current interim rates and PAWW basing its estimate on the rates prior to the interim increase. The slight difference between PAWW's and the Division's estimates of revenues at the utilities proposed rates (columns 2 and 4 of Appendix A) is that PAWW's estimate is its calculated revenue requirement based on the utility's estimated expenses and a rate of return of 15% in test year 2002 while the Division's estimate is based on the actual revenue PAWW's proposed rates will generate based on the Division's estimate of number of customers and water consumption in test year 2002.

PAWW has a tariff schedule, Schedule No. 9-MIUL, for untreated industrial water. The schedule was created for untreated water users like Bed Rock. Over the years, Bed Rock has been the only customer to use the industrial tariff rate. The water rate for this tariff schedule is \$2.28 per thousand gallons (or \$1.71 per hundred cubic feet). By contrast, the residential rate in 2000 for treated water was \$2.66 per hundred cubic feet (Ccf) (General Metered Service Tariff Schedule No. 1).

Prior to 1994, Bed Rock was located next to the incoming water line from the Garcia River well and was able to receive untreated water. Bed Rock used untreated water for its cement mixing operations. Then in 1994, Bed Rock moved up the street, so the only way for it to receive untreated water was to install a new water line. Rather than incur this

cost, PAWW started to deliver treated water to Bed Rock, but continued to charge the untreated industrial tariff.

The difference in revenue between the untreated and treated schedules is \$1,276. Division staff's investigation indicates that PAWW has been losing money every year since 1994 and at an amount exceeding \$1,276. Since rates haven't been increased since 1991, the \$1,276 differential would have had no adverse impact on PAWW customers. All that has

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happened is that PAWW's loss per year has been \$1,276 greater than it would have been if Bed Rock had been paying the higher treated-water rate. Bed Rock is now paying the same rate as residential customers as a result of the interim increase authorized by Res. W-4308.

The Division believes that water consumption in test year 2002 will be the same as in 2001 and therefore, estimates water consumption to be 16,395.4 Ccf which is based on the total water pumped in year 2001 of 18,068.32 Ccf and a 9.26% water loss which is reasonable for utility of PAWW's size and operational characteristics. No customer growth is expected in 2002.

Purchased Power

PAWW uses electric power to pump water from its wells at the Garcia River and at Whisky Shoals. It also uses electric power to pump water uphill from the Garcia River to its storage tanks and then on to some parts of its service area. There are a total of 5 electric meters. One booster pump shares an electric meter with the Bed Rock shop. In the past, PAWW has paid the electric bill for this meter in lieu of rent for the land, shop, storage space and tools (not owned by PAWW) used by PAWW. The power bill in 2000 for the booster pump and shop was \$5,430. Since the meter measured electric service to two businesses, PAWW was charged one-half of the cost \$2,715($\$5,430/2$).

PAWW bases its estimates of \$13,000 for power cost in the test year on recorded 2000 power costs. The total of the power bills for 2000 was \$15,579. The total without the booster pump and shop was \$10,149

(\$15,579-\$5,430). PAWW estimates its power cost to be \$13,000 (\$10,149 + \$2,715).

As stated earlier, the Division assumes that water consumption in test year 2002 will be the same as in recorded year 2001. Therefore, power consumption is assumed to be the same. The Division's estimate of purchased power is \$16,170 and takes into consideration the one-half cost for the meter shared with the Bed Rock. The primary reason for the difference in estimates between PAWW and the Division is that the Division's estimate is based on PG&E's current rates that include the power increase in 2001 due to wholesale water increases. PAWW's

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estimate is based on 2000 recorded power costs which do not include recent power increases. The Division's estimate of \$16,170 for purchased power is reasonable.

Other Volume Related Costs

PAWW estimated test year other volume related costs to be \$1,000. The audit found other volume related costs to be \$459 in 2000. With minimal water consumption change from 2000 to 2002, no customer growth in 2001 and 2002, and no inflation from 2000 to 2002 as reported by the Commission's Office of Ratepayer Advocates Energy Cost of Service Branch (ECSB). The Division finds \$459 to be reasonable in test year 2002.

Employee Labor

PAWW proposed \$6,000 for employee labor based on \$12.00 per hour for meter reading and other work. The Division reviewed the historical recorded costs and hours worked and recommends \$5,640 (\$12.00 per hour x 470 hours) to be reasonable.

Materials

PAWW's estimated test year material cost of \$15,000 was based on year 2000 recorded cost plus estimated inflation. This account includes materials and supplies used in the operation and maintenance of the water system, other than the repair and maintenance materials charged

to Contract Work and chemicals charged to Other Volume Related Expenses. The audit found material costs of \$5,836 in 2000 reported by PAWW to be accurate. With no customer growth in 2001 and 2002, and no inflation from 2000 to 2002 as reported by ECSB, the Division finds \$5,840 to be reasonable.

Contract Work

PAWW's estimated contract work of \$20,000 is a rounded figure that is intended to reflect the fact that as the PAWW system ages, the volume of heavy duty type work is increasing. This account includes the cost of all maintenance and repair work not performed by water company employees, including water testing. The Division estimated the test

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year contract work by averaging the past three years' data, adjusted for inflation and finds \$17,790 is reasonable for a utility of PAWW's size and recommends \$17,790 for this category.

Transportation

PAWW estimated test year transportation cost of \$10,000. PAWW does not own any vehicles. PAWW's estimate was based on \$20 per hour for use of a pick-up truck for commercial use for field checking, meter reading, and other administrative responsibilities. The audit found recorded transportation cost of \$5,120 reported by PAWW in 2000 to be accurate. There was no customer growth in 2001 and no customer growth is expected in 2002. The Division estimated the test year transportation cost by averaging the past two years' data, adjusted for inflation and finds \$7,140 is reasonable for a utility of PAWW's size.

Other Plant Maintenance

PAWW estimated \$5,500 for this category. The Division examined the historical costs trend and adjusted for inflation for this expense. The Division finds PAWW's estimates to be reasonable and recommends \$5,500 for this category.

Office Salaries

PAWW proposed \$22,500 for this category. It is based on \$15.00 per hour for one staff person working 30 hours weekly in the office performing a combination of billing, secretarial, telephone answering and administrative support. The Division examined the recorded costs adjusted for inflation and finds \$20,500 ($\$13.66/\text{hour} \times 30 \text{ hours} \times 50 \text{ weeks}$) to be reasonable for a utility of this size and recommends \$20,500 for this category.

Management Salaries

PAWW estimated the management salaries expense to be \$24,000 and is based on \$1,000 per month for Mr. Hay's service as General Manager and \$35.00 per hour for 340 hours to perform repairing pipes, taking water samples and performing maintenance on the system. The Division examined the recorded costs and finds \$19,500 ($\$1,000 \text{ per}$

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month plus \$22.00 per hour for 340 hours) to be reasonable for Mr. Hay to manage and perform other maintenance and repair duties for a utility of PAWW's size.

Office Services & Rentals

PAWW estimated office services and rentals to be \$9,600. It is based on \$500 per month for 200 square feet furnished with desks, other furniture, various office equipment, light, heat, and based on \$300 per month for the use of heavy tools and storage space. The Division reviewed the actual recorded costs and made comparisons with local office rentals in the area with no furniture, no office equipment and finds \$6,000 to be reasonable and recommends \$6,000.

Office Supply & Expenses

PAWW requested \$5,000 for this category. This account includes the cost of office supplies and expenses, including printing, stationary, general accounting supplies, repair, maintenance, telephone, utilities and other office expense. The Division estimated the test year office supply & expenses by averaging the past three years' data, adjusted for inflation and finds \$3,500 is reasonable for this category.

Professional Services

PAWW estimated test year professional services of \$20,000. These services include the fees of independent accountants, engineers, lawyers, and tax preparation. The Division reviewed the recorded costs and finds \$7,450 is reasonable for accounting service for maintaining utility records, preparing annual reports to the Commission, and filing tax returns, and recommends \$7,450 for this category.

Insurance

PAWW estimated the insurance cost to be \$17,500 based on worker's compensation insurance, the premium for general liability insurance, umbrella insurance, and health insurance. The Division's estimate of \$11,350 reflects the Division's total payroll estimates and the current health and worker's compensation insurance. The Division recommends \$11,350 for this category.

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Regulatory Expense

PAWW estimated test year regulatory expense of \$2,500 that represents the 1.4% CPUC user fee. The Division did not include this fee in either expense or revenue. The amount recorded in this account should include the costs related to meeting regulatory obligations and general rate case expenses. The audit found \$12,015 related to the general rate case reported by PAWW in 2000 to be accurate. It represented costs to prepare the original filing in June, 2000 and the amended filing in January, 2001. The Division believes this to be a reasonable cost for a general rate case for a utility of PAWW's size. Although, it has been 10 years since PAWW filed its last general rate case, small water utilities normally file every four to six years. In view of this, the Division recommends that the \$12,015 be spread of a five-year cycle or \$2,403 per year.

General Expenses

PAWW estimated the general expenses of \$500. This account is used to record expenses that are not includible in other operation expense accounts. The Division examined the actual recorded costs and finds \$420 to be reasonable and recommends \$420.

Depreciation Expenses

PAWW estimated test year depreciation expense of \$8,200 based on the Straight Line Remaining Life method of determining depreciation using a 2.0% depreciation rate for year 2000. The Division calculated its depreciation expense just PAWW did but brought the estimate current with the test year 2002.

Taxes Other Than Income Taxes

PAWW estimated taxes other than income taxes to be \$12,000. It is based on the estimated payroll tax of \$7,350 plus \$2,890 county taxes and license fee of \$680 and then rounded to \$12,000. The Division estimates \$4,450 for payroll taxes based on the current payroll and employment tax rates. The Division estimates \$2,775 for county taxes based on PAWW's current county tax bills and license fees of \$901 that

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PAWW is billed annually. The Division finds \$8,126 (\$4,450+\$2,775+\$901) is reasonable for this category.

Income Tax

Both PAWW's and the Division's estimates were based on 8.84% State tax and 15% Federal tax. The difference in estimates of income taxes is due to the differences in estimates of revenues and expenses.

Average Utility Plant

The audit found that the total utility plant of \$1,325,173 as of December 31, 2000 reported by PAWW is accurate. PAWW added \$1,590 in year 2001, therefore, the Division recommends \$1,326,763 for this category in test year 2002.

Contributions

PAWW reported that of the \$1,325,173 in total utility plant, \$740,861 was funded by contributions. The audit found this to be accurate. Therefore, the Division recommends \$740,861 contributed plant. This

contributed plant is subtracted out of rate base and the utility does not earn a return on it.

Surcharges

PAWW reported that of the \$1,325,173 in total utility plant, \$197,682 was funded by surcharges. The audit found this to be accurate. Surcharges are subtracted out of rate base and the utility does not earn a return on it.

Accumulated Depreciation Reserve

The audit found that the accumulated depreciation reserve of \$331,092 as of December 31, 2000 reported by PAWW is accurate. Of the amount, \$152,785 was funded with contributions in aid of construction and \$78,207 was funded with surcharges. Based on the recorded data, the Division calculated the test year 2002 depreciation reserve, contributions in aid of construction, and surcharges to be \$370,265,

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\$172,923, and \$84,864 respectively. The Division recommends \$112,478 (\$370,265-\$172,923-\$84,864) for this category.

Rate Base

Audit found PAWW's reported rate base of \$286,530 as of December 31, 2000 to be accurate. With plant additions in 2001 and calculating average accumulated depreciation reserve for test year 2002, the Division recommends a rate base of \$275,742 in test year 2002.

VI. OVER-COLLECTION

As mentioned earlier, PAWW was authorized its last general rate increase on June 19, 1991, pursuant to Res. W-3594. In its investigation, the Division discovered that upon implementing its newly authorized rates pursuant to Res. W-3594, PAWW began incorrectly assessing its 5/8 X 3/4-inch metered customers with the 3/4 -inch metered service charge rate, an initial overcharge of \$3.15 per month per customer (\$15.20 versus \$12.05). The utility assessed this incorrect rate up until

the interim rates authorized by Res. W-4308 were implemented in January 2002. The utility informed the Division that it didn't realize it had been incorrectly billing its customers. It appears to the Division that the incorrect billing was inadvertent on the part of PAWW. Although PAWW has been losing money since 1994 even with the incorrect billing and the incorrect billing was inadvertent, the utility was still in violation of Section 532 of the State of California Public Utilities Code (Code). Therefore, the Division recommends that PAWW be required to refund three years (1999, 2000 and 2001) of the over-collection to each affected customer over a six month period. This is consistent with Section 736 of the Code that limits the claim for damages resulting from violations of any of the provisions of Section 532 of the Code to three years. The total over-collection from January 1, 1999 through December 31, 2001 was \$17,965. A summary of the over-collection during that period is as follows:

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Overcharge – 5/8-inch meters charged 3/4-inch rate
1999-2001

Month	Customers	3/4" rate Charged	5/8" Tariff	Overcharge
Jan-99	161	15.20	12.05	507.15
Feb-99	162	15.20	12.05	510.30
Mar-99	161	15.20	12.05	507.15
Apr-99	161	15.20	12.05	507.15
May-99	161	15.20	12.05	507.15
Jun-99	162	15.20	12.05	510.30
Jul-99	162	15.20	12.05	510.30
Aug-99	161	15.20	12.05	507.15
Sep-99	159	15.20	12.05	500.85
Oct-99	164	15.20	12.05	516.60
Nov-99	161	15.20	12.05	507.15
Dec-99	162	15.20	12.05	510.30
Jan-00	161	15.20	12.05	507.15
Feb-00	161	15.20	12.05	507.15
Mar-00	162	15.20	12.05	510.30
Apr-00	162	15.20	12.05	510.30

May-00	162	15.20	12.05	510.30
Jun-00	161	15.20	12.05	507.15
Jul-00	162	15.20	12.05	510.30
Aug-00	162	15.20	12.05	510.30
Sep-00	162	15.20	12.05	510.30
Oct-00	160	15.61	12.37	518.40
Nov-00	161	15.61	12.37	521.64
Dec-00	160	15.61	12.37	518.40
Jan-01	156	15.61	12.37	505.44
Feb-01	156	15.61	12.37	505.44
Mar-01	151	15.61	12.37	489.24
Apr-01	143	15.61	12.37	463.32
May-01	141	15.61	12.37	456.84
Jun-01	143	15.61	12.37	463.32
Jul-01	143	15.61	12.37	463.32
Aug-01	146	15.61	12.37	473.04
Sep-01	146	15.61	12.37	473.04
Oct-01	147	15.61	12.37	476.28
Nov-01	147	15.61	12.37	476.28
Dec-01	147	15.61	12.37	<u>476.28</u>
			Total	\$17,965.08

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This means that a 5/8 x 3/4-inch metered customer who was connected to the system for the entire thirty-six months from January 1, 1999 through December 31, 2001 would be refunded a total of \$114.75 or \$19.13 per month for six months (\$114.75/6). A customer who was connected to the system for less than thirty-six months during the same three year period would be refunded \$19.13 per month until the appropriate total over-collection for that particular customer is refunded.

Since 1978, PAWW has had a surcharge in place to recover the cost related to the Garcia River well and pipeline that were installed in 1978. The costs were financed using a Small Business Administration (SBA) loan. The purpose of the surcharge was to repay the SBA loan payment of \$790 per month. During the first twelve years the surcharge did not collect sufficient amounts to pay the loan so an under-collection occurred and PAWW had to make up the difference. Since 1993 the amounts collected exceeded the amount needed to pay the loan payments. As of December 31, 2001 PAWW had collected \$59,904,

which exceeds the current need to pay down the loan balance of \$56,044. PAWW eliminated the surcharge on December 31, 2001. The Division recommends that the \$3,860 over-collection be refunded to customers via a credit on each monthly bill for a period of six months as shown below:

Refund of Garcia Well Surcharge

<u>Meter Size</u>	<u>Number</u>	<u>Refund</u>	<u>Revenue</u>	<u>6-month</u>
5/8 x 3/4 - inch	152	\$17.73	\$2,695	\$2.96
3/4 - inch	10	22.38	224	3.73
1 - inch	10	27.96	280	4.66
2 - inch	5	52.18	261	8.70
6 - inch	2	200.12	<u>400</u>	33.35
			3,860	

VII. RATE DESIGN

PAWW provides metered service to 179 customers. Current Commission rate design policy for metered service allows Class D water companies (companies with less than 500 service connections) to
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collect 100% of its fixed costs in the service charge portion of its rates. PAWW's present rates fall significantly short of this allowance by recovering only about 50% of its fixed costs in the service charge portion of Schedule No. 1, General Metered Service. The Division's proposed rates in Appendix B raises the percentage of fixed cost recovery in the service charge to approximately 68%. The percent recovery can not go any higher because of the rate design policy that restricts any one customer from experiencing an increase in rates that is more than twice the system average increase authorized. The Division recommends that in future general rate increase requests filed by PAWW, the percentage of fixed costs recovered by the service charge be raised until such time that 100% recovery is achieved.

A comparison of customer bills for PAWW is shown in Appendix C. At Division's recommended rates, a monthly bill for a residential customer using 630 cubic feet will be increased from \$47.30 to \$74.18 or 56.8%. The adopted quantities and tax calculations are shown in Appendix D.

VIII. RATE OF RETURN

PAWW requested rates that it estimated would produce a rate of return on rate base of 15.00%. The Summary of Earnings in Appendix A shows a rate of return of 13.00% at the Division's recommended rates. This rate of return is the midpoint of the rate of return range recommended by the Commission's Audit and Compliance Branch for Class D water utilities. Under guidelines established by Commission Decision (D.) 92-03-093, the Commission must calculate net revenue by both the return on rate base and operating ratio methods that determine revenue and select the method that produces the most revenue. The Division evaluated the net using both methods and determined that the return on rate base method produces the most revenue.

IX. SERVICE, FIELD VISITS, NOTICE, AND PUBLIC RESPONSE

Division staff member, Peter Liu, conducted a field investigation of PAWW's system and service area on December 19, 2000 and on February 26, 2002. The owner, Mr. Hay, directed a tour of the service area and explained the operation of the water system. Mr. Hay made

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the company's records available for inspection and provided other assistance.

A notice of the proposed increase in rates initially filed by PAWW was mailed to each customer on November 27, 2000. The notice of the revised request was mailed to each customer on January 30, 2002. The Division has received 25 letters including 11 form letters protesting the increase.

The Division conducted two informal public meetings regarding the rate increase request, the first on December 19, 2000, and the second on February 26, 2002. Approximately 16 and 60 individuals attended each meeting, respectively. The primary concerns of individuals at both meetings were the size of the rate increase, the Garcia River Surcharge over-collection, and the over-collection of the 5/8" meter customers.

Service is satisfactory. There are no significant service problems requiring corrective action.

X. COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required.

PAWW's 2000 Consumer Confidence Report filed with the Department of Health Services and the most recent water sample tested on 6/26/01 indicated that the water quality meets all State requirements and there is no violation.

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XI. RECOMMENDATION

- a. The Division recommends that the Commission authorize an increase of \$70,137 or 56.9%, which would increase estimated annual revenue from \$123,278 at present rates to \$193,415 at adopted rates. A residential metered customer using 630 cubic feet of water would realize an increase on a monthly bill from \$47.30 to \$74.18 or 56.8%. This increase will produce a 13.00% return on rate base.
- b. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.

- c. The rates recommended by the Division (Appendix B) are reasonable and should be authorized.
- d. The quantities (Appendix D) used to develop the Division recommendations are reasonable and should be adopted.
- e. PAWW should be required to provide the overcharge credits to its 1999, 2000, and 2001 5/8-inch metered customers in installments of \$19.13 per month for six months commencing with the first billing, after the effective date of new rates.
- f. PAWW should be required to provide Garcia River Surcharge credits to customers for six months commencing with the first billing, after the effective date of new rates. Refund should be as follows:

Refund of Garcia Well Surcharge

<u>Meter Size</u>	<u>Number</u>	<u>Refund</u>	<u>Revenue</u>	<u>6-month</u>
5/8 x 3/4 - inch	152	\$17.73	\$2,695	\$2.96
3/4 - inch	10	22.38	224	3.73
1 - inch	10	27.96	280	4.66
2 - inch	5	52.18	261	8.70
6 - inch	2	200.12	<u>400</u>	33.35
			3,860	

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APPENDIX A
POINT ARENA WATER WORKS, INC.
SUMMARY OF EARNINGS
Test Year 2002

Utility Estimated		Branch Estimated		Staff Adopted Rates
Present Rates	Proposed Rates	Present Rates	Proposed Rates	

Operating Revenues

Metered Rate	\$80,095	\$250,259	\$123,278	\$250,259	\$193,415
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Operating Expenses:

Power	13,000	13,000	16,170	16,170	16,170
Other Vol. Related Costs	1,000	1,000	459	459	459
Employee Labor	6,000	6,000	5,640	5,640	5,640
Materials	15,000	15,000	5,840	5,840	5,840
Contract Work	20,000	20,000	17,790	17,790	17,790
Transportation	10,000	10,000	7,140	7,140	7,140
Other Plant Maintenance	5,500	5,500	5,500	5,500	5,500
Office Salaries	22,500	22,500	20,500	20,500	20,500
Management Salaries	24,000	24,000	19,500	19,500	19,500
Uncollectibles	2,000	2,000	1,115	1,115	1,115
Office Services & Rentals	9,600	9,600	6,000	6,000	6,000
Office Suppl. & Expenses	5,000	5,000	3,500	3,500	3,500
Professional Services	20,000	20,000	7,450	7,450	7,450
Insurance	17,500	17,500	11,350	11,350	11,350
Regulatory Expense	2,500	2,500	2,403	2,403	2,403
General Expenses	500	500	420	420	420
Subtotal	174,100	174,100	130,777	130,777	130,777

Depreciation Expense	8,200	8,200	8,263	8,263	8,263
Taxes Oth than Inc Taxes	12,000	12,000	8,126	8,126	8,126
Income Tax Expense	<u>800</u>	<u>13,459</u>	<u>800</u>	<u>29,316</u>	<u>10,412</u>
Total Expenses	195,100	207,759	147,966	176,482	157,578

Net Revenue	(115,005)	42,500	(24,688)	73,777	35,837
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Rate Base

Average Plant	1,325,173	1,325,173	1,326,763	1,326,763	1,326,763
Aver. Depr. Reserve	(100,100)	(100,100)	(112,478)	(112,478)	(112,478)
Net Plant	1,225,073	1,225,073	1,214,285	1,214,285	1,214,285
Less: Contributions	740,861	740,861	740,861	740,861	740,861
Surcharges	197,682	197,682	197,682	197,682	197,682
Rate Base	286,530	286,530	275,742	275,742	275,742
Rate of Return	Loss	15.00%	Loss	26.76%	13.00%

(END OF APPENDIX A)
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APPENDIX B
POINT ARENA WATER WORKS, INC.

Schedule No. 1
GENERAL METERED SERVICE
Test Year 2002

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Point Arena and vicinity and Whiskey Shoals Subdivision
Unit Nos. 1, 2 & 3, Mendocino County.

RATES

Quantity Rate:

All water, per 100 cu. ft..... \$ 4.96 (I)

Per Meter Per Month

Service Charge:

For	5/8x3/4-inch meter.....	\$42.93	(I)
For	3/4-inch meter.....	54.18	(I)
For	1-inch meter.....	67.69	(I)
For	1-1/2-inch meter.....	94.80	(I)
For	2-inch meter.....	126.33	(I)
For	3-inch meter.....	214.33	(I)
For	4-inch meter.....	291.52	(I)
For	6-inch meter.....	484.47	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added to the charge for water used at the Quantity Rate.

SPECIAL CONDITIONS

1. In addition to the above rates and charges rendered to all bills under this schedule, a surcharge will be added as set forth in Schedule No. 1-X, General Metered Service Surcharge.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)
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APPENDIX C
POINT ARENA WATER WORKS INC.

Schedule No. 1

GENERAL METERED SERVICE

Test Year 2002

COMPARISON OF RATES

A comparison of PAWW's present rates and the Branch's recommended rates is shown below:

	<u>Present Rates</u>	<u>Recommended Rates</u>
<u>QUANTITY RATE</u>		
All water, per 100 cu. ft:	\$4.32	\$4.96

<u>SERVICE CHARGE</u>	<u>Per Meter Per Month</u>	
For 5/8x3/4-inch meter.....	20.08	42.93
For 3/4-inch meter.....	25.34	54.18
For 1-inch meter.....	31.66	67.69
For 1-1/2-inch meter.....	44.34	94.80
For 2-inch meter.....	59.09	126.33
For 3-inch meter.....	100.25	214.33
For 4-inch meter.....	136.35	291.52
For 6-inch meter.....	226.60	484.47

A comparison of monthly bills at various consumption rates is as follows:

Quantity Used 100 cu. ft	Current Rates	Proposed Rates*	Amount Increase	Percent Increase
0	\$20.08	\$42.93	\$22.85	113.8%
6.3	47.30	74.18	26.88	56.8
10.0	63.28	92.53	29.25	46.2

(END OF APPENDIX C)

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APPENDIX D
POINT ARENA WATER WORKS INC.

ADOPTED QUANTITIES

Test Year 2002

EXPENSES

1.	Purchased Power	\$16,170
	Pacific Gas & Electric Company	
	Rate Schedule	A-1
	Summer (\$0.14870/kWh) x 33,877 kWh	\$5,038
	Winter (\$0.10193/kWh) x 27,212 kWh	\$2,774
	Customer Charge Polyphase four meters per year	\$576
	Subtotal	\$8,388
	Rate Schedule	A-6
	Summer Peak (\$0.23258/kWh) x 3,511 kWh	\$817
	Summer Part-Peak (\$0.10288/kWh) x 3,716 kWh	\$382
	Summer Off-Peak (\$0.05618/kWh) x 4,635 kWh	\$260
	Winter Part-Peak (\$0.11562/kWh) x 8,168 kWh	\$944
	Winter Off-Peak (\$0.07169/kWh) x 4,644 kWh	\$333
	Meter Charge per meter per year, Rate A-6	\$41
	Customer Charge Polyphase per meter per year	\$72
	Subtotal	\$2,849
	Energy Procurement Surcharges	
	Rate Schedule	A-1
	Summer (\$0.07140/kWh) x 33,877 kWh	\$2,419
	Winter (\$0.03838/kWh) x 27,212 kWh	\$1,044
	Subtotal	\$3,463
	Rate Schedule	A-6
	Summer Peak (\$0.11064/kWh) x 3,511 kWh	\$388
	Summer Part-Peak (\$0.05551/kWh) x 3,716 kWh	\$206
	Summer Off-Peak (\$0.04551/kWh) x 4,635 kWh	\$211
	Winter Part-Peak (\$0.05551/kWh) x 8,168 kWh	\$453
	Winter Off-Peak (\$0.04551/kWh) x 4,644 kWh	\$212
	Subtotal	\$1,470
2.	Insurance Expense	\$11,350
3.	County Taxes	\$2,775
4.	Payroll Taxes	\$4,450

Service Connections

Metered Rate: All meter sizes 179

Resolution W-4356
PAWW/DRAFT AL/FLC/ABJ/PTL:jrb

October 24, 2002

Meter Water Sales Used to Design Rates

16,395.4 Ccf

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ADOPTED INCOME TAX CALCULATIONS

Test Year 2002

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$193,415	\$193,415
2.	Expenses	\$130,777	\$130,777
3.	Unsecured Property Taxes	\$ 2,775	\$ 2,775
4.	Depreciation	\$ 8,263	\$ 8,263
5.	Payroll Taxes	\$ 4,450	\$ 4,450
6.	License Fees	\$ 901	\$ 901
7.	State Taxable Income	\$ 46,249	
8.	State Tax (@8.84%)	\$ 4,088	\$ 4,088
		=====	=====
9.	Federal Taxable Income		\$ 42,161
10.	Federal Income Tax (@15%)		\$ 6,324
11.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 10,412

(END OF APPENDIX D)

(END OF ATTACHMENT TWO)